FDIC State Profile

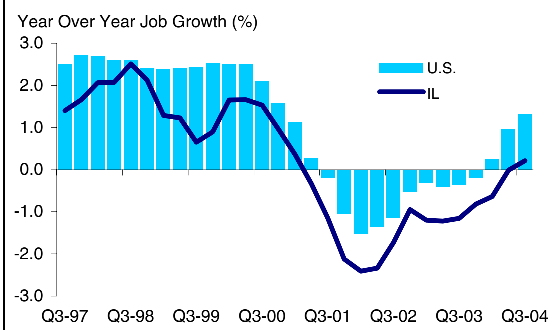
Winter 2004

Illinois

The Illinois economic recovery slowly gets under way.

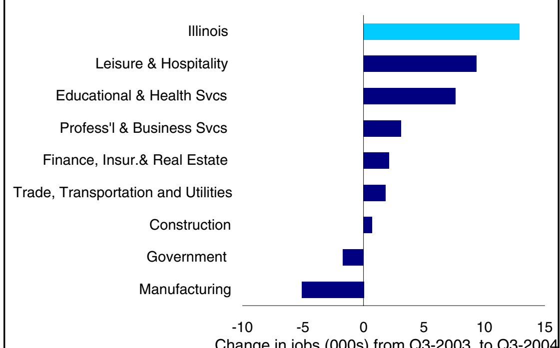
- Illinois job growth turned positive in third quarter 2004, after three years of losses (See Chart 1). Job gains were concentrated in the ***Chicago*** metro area, which accounts for 70 percent of the state's employment.
- Job gains during the past year were relatively widespread across industries, except for the manufacturing and government sectors (See Chart 2).
- In response to robust manufacturing orders and shipments nationwide, Illinois manufacturing job losses slowed considerably in the past two quarters. Even so, strong productivity gains and corporate restructurings continue to impede an upturn in factory employment. Recently, for example, more than 1,900 workers lost their jobs because of the closure of the Maytag plant in **Galesburg** and layoffs at the Mitsubishi plant in **Normal**.
- The airline industry's struggles also affect the state. As United Airlines fights to emerge from bankruptcy, ATA airlines recently filed for bankruptcy court protection, putting at risk the jobs of ATA's 3,200 employees at Midway Airport.
- Recent growth in residential permits in the **Chicago-Naperville-Joliet** metropolitan area suggests that single-family construction will remain active in 2005 (See Chart 3). Relatively rapid population growth in some areas, notably **Will** and **Kane** counties, is one factor driving demand. In addition, jobs gains and a falling unemployment rate are helping the financial condition of Chicago area households.
- In contrast, multifamily construction is expected to continue the retrenchment that began in 2004 following several years of strong growth. In third quarter 2004, permits for apartments were 21 percent below year-earlier levels.

Chart 1: Job Growth Returns to Illinois



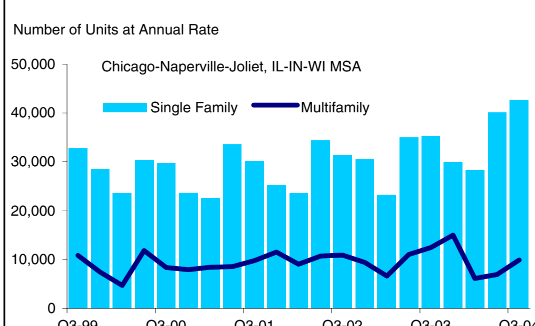
Source: Bureau of Labor Statistics

Chart 2: Job Growth in Illinois Varies Across Sectors



Source: Bureau of Labor Statistics

Chart 3: Single Family Permits Remain Active



Source: Bureau of the Census

Illinois community institutions reported stable earnings performance.[1]

- Profitability improved slightly at Illinois community institutions in third quarter 2004 from one year ago, as higher net interest income and lower provision expense outpaced lower noninterest income (See Table 1).

- Overall credit quality trends continued to improve. Net charge-offs remained low and delinquencies trended down for six consecutive quarters. Past-due rates at Illinois community institutions declined for all loan categories, except multifamily real estate loans (See Chart 4).

- Growth in home equity lines, nonresidential real estate, and construction and development loans produced most of the year-over-year loan growth in the third quarter. Commercial and industrial loans picked up slightly at community institutions yet declined at large institutions. Consumer loan demand was exceptionally strong at large institutions, where credit card loans tripled in third quarter 2004 from a year ago.

Illinois bank branching activity expands amid charter consolidation.

- Illinois experienced significant charter consolidation from 1994 through 2004 as the number of head offices declined by 32 percent to 760 offices. In contrast, Illinois bank branching activity expanded dramatically faster at 62 percent to 3,364 offices (See Chart 5).

- New branching activity was concentrated in the Chicago metro area. Chicago's appealing demographics, such as household income and population growth, combined with a fragmented banking market attract many institutions to its market.[2] In the past year, the number of banking offices within the Chicago area grew 12 percent to 2,198 offices.

- State legislation enacted in August now allows out-of-state banks to operate de novo branches in Illinois subject to reciprocity provisions.[3] Previously, branching into Illinois by out-of-state banks was only possible by acquiring an Illinois bank charter. According to the Illinois Division of Banks and Real Estate, this law will open 16 states and District of Columbia to Illinois banks. Initially, most of the interstate branching is expected to occur in Indiana, currently the only contiguous state with reciprocal law.[4]

- In contrast, several communities are increasingly concerned that the recent and rapid branching activity consumes too many valuable retail sites and produces too little sales tax revenue. Consequently, the city of Chicago and several suburban communities are issuing moratoriums or limits on opening new branches.

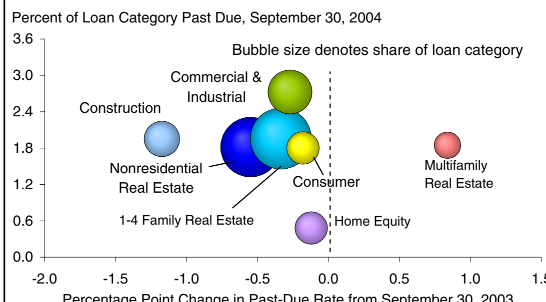
Table 1: Earnings Performance Remains Stable at Illinois' Community Banks and Thrifts

Income statement contribution (as a percentage of average assets)

	3 months ended September 30		Percentage Point Change
	2003	2004	
Net Interest Income	3.38	3.43	0.05
Noninterest Income	0.89	0.76	-0.13
Noninterest Expense	-2.63	-2.61	0.02
Provision Expense	-0.29	-0.16	0.13
Security Gains & Losses	0.04	0.01	-0.03
Income Taxes	-0.33	-0.34	-0.01
Net Income (ROA)	1.06	1.09	0.03

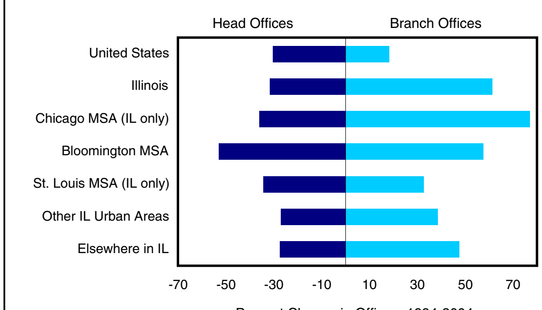
Source: FDIC

Chart 4: Past-Due Rates Continue to Improve Across Most Loan Categories



Source: FDIC. Illinois Community Institutions

Chart 5: Bank Branching Increases Despite Reduction in the Number of Head Offices



Source: FDIC/OTS Summary of Deposits

[1] Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks.
[2] For more information on Chicago's fragmented banking market, see the Chicago Regional Perspectives in the fourth quarter 2003 FDIC Outlook. http://www.fdic.gov/bank/analytical/regional/ro20034q/na/region.html#ch
[3] Public Act 93-0965
[4] Ben Jackson, American Banker, "New Illinois Law Lets Casey, Other Illinois Banks Enter Indiana." October 28, 2004.

Illinois at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	755	776	791	818	828
Total Assets (in thousands)	588,766,799	533,138,144	535,748,947	446,315,110	389,923,714
New Institutions (# < 3 years)	8	11	25	43	40
New Institutions (# < 9 years)	71	76	79	87	79

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.18	8.91	9.06	9.03	9.40

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.61%	1.85%	1.92%	1.98%	1.86%
Past-Due and Nonaccrual >= 5%	73	95	98	101	73
ALLL/Total Loans (median %)	1.13%	1.18%	1.13%	1.07%	1.07%
ALLL/Noncurrent Loans (median multiple)	1.64	1.41	1.37	1.32	1.46
Net Loan Losses/Loans (aggregate)	0.24%	0.64%	0.86%	0.79%	0.38%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	42	40	34	70	67
Percent Unprofitable	5.56%	5.15%	4.30%	8.56%	8.09%
Return on Assets (median %)	0.96	0.99	1.04	0.90	0.97
25th Percentile	0.62	0.65	0.71	0.57	0.65
Net Interest Margin (median %)	3.69%	3.66%	3.81%	3.61%	3.80%
Yield on Earning Assets (median)	5.29%	5.64%	6.47%	7.53%	7.75%
Cost of Funding Earning Assets (median)	1.61%	1.98%	2.67%	3.93%	3.98%
Provisions to Avg. Assets (median)	0.09%	0.11%	0.13%	0.11%	0.10%
Noninterest Income to Avg. Assets (median)	0.51%	0.58%	0.52%	0.51%	0.47%
Overhead to Avg. Assets (median)	2.57%	2.59%	2.61%	2.62%	2.62%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	74.11%	72.24%	73.07%	72.53%	72.77%
Loans to Assets (median %)	62.10%	60.46%	61.81%	61.36%	62.08%
Brokered Deposits (# of Institutions)	207	173	152	131	109
Bro. Deps./Assets (median for above inst.)	4.42%	4.14%	4.38%	3.32%	3.05%
Noncore Funding to Assets (median)	16.57%	15.95%	16.22%	15.97%	15.44%
Core Funding to Assets (median)	71.73%	72.58%	72.27%	72.49%	73.06%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	418	423	427	446	451
National	162	170	177	186	194
State Member	71	77	75	70	66
S&L	27	27	28	29	31
Savings Bank	28	31	34	36	36
Stock and Mutual SB	49	48	50	51	50

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	340	32,168,610	45.03%	5.46%
Chicago IL PMSA	270	516,675,389	35.76%	87.76%
St Louis MO-IL	30	5,254,707	3.97%	0.89%
Peoria-Pekin IL	22	3,615,159	2.91%	0.61%
Springfield IL	16	3,437,573	2.12%	0.58%
Rockford IL	16	7,024,185	2.12%	1.19%
Davenport-Moline-Rock Island IA-IL	16	2,230,554	2.12%	0.38%
Champaign-Urbana IL	16	3,959,965	2.12%	0.67%
Decatur IL	11	1,830,026	1.46%	0.31%
Kankakee IL PMSA	9	1,820,067	1.19%	0.31%
Bloomington-Normal IL	9	10,750,564	1.19%	1.83%